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Martin Leitgeb: First of all, thank you very much to Alison Rose, chief executive of NatWest Group for joining us today. It's a real pleasure for us here at Goldman Sachs to welcome you again to our conference this year...

Alison Rose: Yes, thank you.

Martin Leitgeb: ...In Paris. I'm sure no particular introduction is needed, but I do it anyway, very briefly. Alison was appointed to her current role in November 2019, having gained a wealth of frontline banking experience during her long-standing career at NatWest. So Alison, many thanks again for making time and joining us at this year's conference. Maybe just to start off with a broader topic, one of the main investor concerns remains the outlook on the broader UK economy just on the back of persistently high inflation print and I was just wondering if you could share your view on the macro-outlook, particular on the outlook with regards to inflation and the potential impact of central bank policy action.

Alison Rose: It's great to be here as well, so thank you for having me. It is always good to catch up.

So look, I think where I'd start with is our strategy has always been to build an all-weather balance sheet and I think the strength of our balance sheet is really designed to navigate through these macro periods. And the way I would describe it is we are well protected against any downside macro view, but we're also well positioned for any upside view in terms of ability to deploy, to grow in a responsible way.

And that really underpins the guidance we've given in terms of the various shape of our business, the 13 to 14% CET1 and the 14 to 16% return on tangible equity in the medium term. So, I think that's really the starting point with a largely secured balance sheet that's growing. I think on the macro what we've seen is obviously inflation is being a little bit more persistent and a little bit more sticky, which is requiring more interest rate rises to come through and that is adding different dynamics to the market, but what we're seeing in the UK is a really strong underlying resilience. If I look at the performance of our book, consumers are behaving in a very rational way. We're seeing no increasing defaults or impairments and the same on the business side, really strong resilience, very low levels of impairments and very rational behavior in terms of spending.

And in fact, what we've actually seen is an increase in confidence now that we're going through a little bit of a movement in the

Swap Curve at the moment, but actual good underlying confidence, in fact the ONS data said investment in the UK increased in the first quarter versus a negative trend in Q4. And when I'm sort of up and down the country, I was in the Midlands last week talking to a group of manufacturers and consumer businesses, very confident and feeling very relaxed. So, what I would say is against that macro uncertainty, I would say credit quality impacts are likely to be less because we're in a very resilient and confident perspective. I think now with markets' implied higher rates, you're going to see impacts on both margins and volumes and customer behaviour mix and we'll update our macro assumptions but underpinning that from our perspective, the all-weather balance sheet really positions us well for this scenario. With still underlying resilient performance from our customers.

Martin Leitgeb:

Great. Let's move to revenue outlook then. Obviously interest rates are 400 basis points higher in the UK over the course of the last one and a half years and I was just wondering how shall we think about the outlook for NII from here? What are the main moving parts in terms of margin and could you also touch on your latest thoughts and observations with regard to deposits, in particular for customer behaviour?

Alison Rose:

Yeah. So look I think a number of moving parts, the first one is the sort of balance sheet which is positioned for upside. We've obviously benefited in our business from rising interest rates. We've seen a strong improvement in NII, 30% higher than previous years, but we've also seen very strong lending growth in our business as well. So the growth has been both a benefit from interest rate rise but also underlying lending growth. You saw in Q1 we had 5.7 billion of lending growth that was broadly spread across our business, and it's grown 27 billion since 2021 and that's back to the kind of organic growth that we have in our business. So I think balance sheet is positioned for growth NII and obviously with deposits, which is the very significant deposit surplus that built up during COVID, that's obviously reducing slowly, but that surplus liquidity has been a benefit for us and we're seeing that surplus reduce as a result of inflation and spending behaviour.

So, I think balance sheet position for growth and NII continues to benefit from higher interest rates and our positioning. I think on customer behaviour, what you are seeing is liquidity tightening and that really is the impact of QT and obviously TFSME refinancing that's going to come across the markets and repayments. So the market is competitive on deposit pricing and we are seeing deposit surplus levels, system liquidity slowly

reduced, but the customer behaviour is very rational. We're seeing customers adjust their spending habits for the macro environment. In some instances what we're seeing is customers with higher deposits actually using the opportunity to pay down more expensive debts. We've seen a bit of early repayment of mortgages, more expensive debt repaid. We're actually seeing, in the business side, with that increased confidence, businesses using some of their surplus liquidity to pay down more expensive debt.

So quite rational behavior but we are seeing liquidity tighten. Our approach to that is we are going to manage our liquidity through a number of lenses. Deposits have income value and liquidity value for us. So, we'll balance how we deal with that. So what does that mean for NIM? which is always the magic question. We've guided for this year that NIM will be around 320 basis points. In Q1 it was higher at around 327. We would expect NIM to continue to reduce. Now that's as a result of the volume mix that we're seeing. So, although you've got the rate increase coming through, even with that partial benefit, don't forget the timing of that, we are seeing the liquidity reduced, so there's going to be a volume mix point. So we would expect NIM to reduce quarter on quarter and we retain our guidance.

Obviously there's also the pass through of deposit rates. We've always said that the higher the rates go, we would expect to pass through more of that higher rate as we balance both sides of our balance sheet and manage our liquidity. Our overall cumulative pass through is around 45%, but on some of the more recent rises we're closer to 80%. So that's just how we're balancing it. So look, we'll give you an update at half one, but our guidance of 320 NIM and we'll expect it to continue to reduce through the quarters. So I think that's the shape of balance sheets and the moving parts. So I think volume and mix and macro dynamics playing through.

Martin Leitgeb:

Great. Let's dig in a little bit more on volume then, in terms of long growth, obviously strong performance of NatWest in the first quarter, I think 5.7 billion growth. I was just wondering going forward, which opportunities are you most excited about? Is it more of the same, so more in mortgages? Or could it be also other areas, such as credit cards, in terms of market share gains?

Alison Rose:

Yeah, I mean, one of the things I'm really happy about in terms of the shape of our business and the franchises that we have. We're the second largest mortgage lender in the UK, the largest commercial bank in the UK with very strong positions and a very strong wealth business as well. And so I still remain very excited about the capacity to grow and that 5.7 billion, the 21 billion I

talked about in terms of overall revenue growth is showing you that we are continuing to organically grow our core franchises which are capital generative businesses. Doing that responsibly, our book is a prime book, 93% secured, good discipline growth and I remain very happy about that growth even in a lower volume mortgage market, for example, with where we are, that is a good asset class for us and we continue to grow that responsibly. So still very excited about the growth we are delivering in our core franchises and within that risk discipline that we have.

And if you look at in the consumer business, we'll grow mortgages still really happy with that, we'll grow unsecured. We're starting from a low base, our market shares now up at 7.2, we're now whole of market, good credit quality coming through. Our wealth business in affluent is growing really positively and on our corporate and institutional business, our very strong positioning green and sustainable funding and financing is delivering really good underlying growth.

But new areas: we've just completed on our acquisition of Cushon, which is workplace pensions, which sits really strongly alongside our commercial and wealth business. Vodeno, which is a partnership that we've built through banking as a service. We think that's a really good long-term growth opportunity as well. So, across those elements I think good responsible learning, but I'm excited about capacity to grow and track record of growing and new areas of growth as well.

Martin Leitgeb:

Yeah, you mentioned net interest income has increased 30% obviously with that the share of other income as a percent of total revenue has decreased now around 25%. I was just wondering what you see as the main growth driver for other income and is this much of a focus?

Alison Rose:

Yeah, I mean it's a really strong focus for us as we can continue to develop the mix in our business. Obviously, there is a driver driven by customer behavior. We're really pleased to see the recovery in transaction banking and fees as business activity continues unsecured, we're developing more fee income and on the wealth side as well. And obviously, our NatWest markets business, a very strong performance in Q1 as that business has finished the strategic refocus and is delivering.

So we're obviously getting an oversized improvement in NII because of the rate moves as a bigger proportion, but underlying that growth in our balance sheet mix, it depends on customer activity and behavior, which is why I'm really pleased to see business confidence and investment coming back.

We have really strong market leading positions for example in asset financing and invoice financing, which is a real dynamic that we're seeing picked up by businesses at the moment, particularly as they evolve their business model with productivity. I said I was in the Midlands last week, I spent some time with a great business there, very traditional business that we are financing all their acquisitions of robotics as they improve productivity and growth in their business. So those elements are really going to continue to diversify. Customer behavior, confidence but also the diversification here.

Martin Leitgeb:

Great. Let's move to cost then. Obviously the high inflation print in the UK, I was just wondering how much of a concern is that in terms of managing your cost base?

Alison Rose:

Yeah. We are a recipient of inflation like everybody else and clearly with that being a little bit more sticky, that's a challenge. We're very comfortable with our cost guidance for this year. We've guided to a cost base of 7.6 billion for this year that includes around 300 million of direct costs from Ulster and so around a cost income ratio of around 52%, moving to 50% as we go forward. But we've built into our forecast for this year, we put a lot of support in for our colleagues for this year.

There was a one-off cash payments that went in through January. So you can see our cost base is absorbing that higher cost as we go forward. So we are very comfortable with our guidance. I always say this and nobody believes me: it won't be linear so we expect our costs in the first half of the year to be higher than the second half of the year as our cost trajectory changes, but we remain comfortable with the 7.6 for the year and our team have a really good track record of cross discipline.

We'll manage the challenges of inflation, it will be different issues that we have to look at, but all of our investment is geared around enhanced efficiency productivity as we're investing in technology and AI, but it won't be linear, higher costs in the first half, but our guidance remains the same. That's exactly the phasing that we planned.

Martin Leitgeb:

And that maybe related to this point, NatWest has been taking out cost for pretty much a good part of the last 15 years ever since the global financial crisis and I was just wondering how much scope is there still for additional efficiency measures? And in that regard the newest debate is on the potential impacts of AI. Do you have any early thoughts on that?

Alison Rose:

Yeah, we have a good track record of cost delivery and discipline, and we very much see continuing operating leverage improvements that we can take out of the business. Obviously, like any big organization, a lot of our cost is fixed costs, focused around staff and property and we continue to evolve that, but big investments in operational efficiency.

Our customer journey program where we're re-engineering our journeys which have the benefit of higher productivity, lower cost and better control are really delivering both customer acquisition and improved efficiency. I often give the example of our account opening straight through processing. It's gone from 17% straight through processing to north of 70. That's just an example of what we're doing on operating efficiency and there's more of that to come and we will continue to invest in doing that.

We've been using AI for a number of years in terms of robotics and natural language processing and our chat bots and how we enhance that. And I think that offers continual improvement for both productivity, greater insight, our personalization strategy, which is a core part of our growth, really enables us to target growth as well as more efficiency and delivery. So, our cost discipline will remain, 52% cost income ratio this year, 50% on an ongoing basis, but real discipline around operating leverage.

Martin Leitgeb:

Great. Sounds very, very clear. Let's move to asset quality and obviously impact of high inflation on cost of living in the UK potentially impact of slowing economy. I was just wondering how worried are you about the loan book? And secondly, are there any early signs you notice in terms of changes in asset quality?

Alison Rose:

Yeah. I mean, I think one of the things around our balance sheet is it's very resilient and what we're seeing is really resilient performance from our customers. We've guided 20 to 30 basis points of impairments for this year. You saw in Q1 it was seven basis points. In fact, we saw sort of provision releases across our commercial bookers rather than sort of impairment. What we're seeing is the underlying strength of the balance sheet that largely secured prime book that we have is performing in a good way. We still think procyclicality will come, but we are not seeing any signs of that. So we're very comfortable with that 20 to 30 basis points and I think credit quality is going to be more benign.

We are not seeing any material signs of distress. So we look at lots of indicators both hard and soft, whether that is the number of calls that come into our financial health and support team, mortgage arrears, early warning indicators in terms of increased usage of spend data and we are not seeing signs of distress.

So, I think that's an important element of that risk discipline and robust balance sheet. So, I think there are challenges in the economy and obviously there is a sort of decile performance across consumers, lower decile households really struggling with high inflation, high interest rates, typically not borrowers, significant borrowers of ours and we're putting a lot of proactive help and advice and support out to customers to help them manage what is a cost of living squeeze. But overall impairments remain very, very low at this point and we're not seeing any material shift, but we are obviously monitoring it very closely and being very proactive in the outlook.

Martin Leitgeb:

Maybe just to follow up on this, I was just wondering how worried you are about commercial real estate. Commercial real estate, traditional area susceptible to loss in economic downturns and it seems to be compounded this time around by a change in working patterns and working from home. I was just wondering how do you see your CRE exposure and also if you're concerned about your office CRE exposure?

Alison Rose:

Yeah. I mean, commercial real estate is a sector that we actively manage very, very closely and have done for a number of years. I mean, if you think pre-financial crisis, RBS's commercial real estate was north of 20% of our overall book with an average loan to value of 164%. That's not a great place to be. Our commercial real estate book today is less than 5% with an average loan to value of 47%. So, it is a very different book.

We manage it as a vertical and it is something that we have actively been reducing and changing the mix over multiple years. It's not something that we've only just paid attention to and we've increasingly over the last 5, 6, 7 years shifted more into industrial, out of retail and more into industrial and we manage it very much and it's very well diversified across all of the regions of the UK. So no bigger areas of concentration.

We also stress it on a regular basis. So we run it through multiple stresses both in terms of valuation and usage and mix and there's nothing in there that causes any cause for concern as we look at that book.

Martin Leitgeb:

Great. Let's move to returns. One of the main discussion points regarding NatWest is the level of return on equity the group can achieve. And you raised the target to 14 to 16% last July. The outlook for interest rates and interest rates kept rising. I was just wondering what kind of returns can the group achieve and what would happen if at some point rates were to go lower again?

Alison Rose:

Yeah. In Q1 we printed a 19.8% return on tangible equity, a very, very strong performance. We're very comfortable with our 14 to 16% medium-term guidance on our RoTE. It really is the nature of the mix and the shape of the business that we've developed. Our view is this year we will be at the upper end of that range. So just to be clear, I'm not capping the range as you can see, but we would expect to be at the upper end and there are puts and takes in the dynamics of the delivery of that. There's obviously been some positive sort of additions to that around higher interest rates, continuing benign environment, very good lending growth, our core organic growth that I was talking about and that mix of credit. But on the other side, lower volume growth is obviously an aspect and the forecast is that inflation will come down and rates will come down. So there's a volume mix point there, but we remain comfortable with that 14 to 16% sustainable return that we've been talking about.

Martin Leitgeb:

Great. Obviously with higher returns comes scope for higher capital return and I was just wondering in terms of potential headwinds on the capital side coming from regulatory changes, there was some fragility in the banking system in the US and Europe. Do you see some merits in terms of some recalibration of some of the frameworks, whether that's deposit insurance or some other parts of the regulation?

Alison Rose:

Yeah. I mean, capital return remains a key aspect of our investment story and that capital generative business, I think. Since I took over we've given over 12 billion back to shareholders and that continues to be a core part of what we want to do. I think some of the volatility you've seen in the banking sector has been quite idiosyncratic in terms of as you look at the different dimensions. Our liquidity portfolio is very robust, LCR of 139%. We've got a largely liquid portfolio. Our bond portfolio is a relatively small part of our book and it is obviously marked to market immediately. So, I think some of the regulatory change from some of the market fragility will be US regional focused. I think the UK market has a very robust resolution regime and is very well capitalized and very well regulated.

So I'm not expecting anything there. Clearly there's a lot of discussion around deposit insurance, again, slightly different structure in the UK to the rest of the market and I think the major concern is not the fact that banks can't be resolved, it's what is the impact on customers with what happens? And so I think that's something that's being looked at.

And if I look at our customer base, just under 70% of our consumer customers are caught within the retail deposits

protection scheme and on the business side it's less but a different dynamic. So, I think that's definitely an area that the regulator is looking at, but I think it's more around how you would manage in a resolution scenario, how you would allow accounts to continue to operate and money back to customers. I think any change like that is going to take some time.

It's not going to happen overnight and we would continue to be part of being involved in that. So that's one aspect. Basel 3.1, in terms of what's happening, we've built into our sort of forecast and trajectory and guidance that we've given you a five to ten percent increase in RWAs, which includes our assumptions on Basel 3.1 and procyclicality and sort of other changes. So I think we're comfortable with what's there, it's built in, deposits, an area that's being looked at, but any regulatory change will take some time and we'll sort of keep a close eye on that.

Martin Leitgeb: Great. You mentioned the large capital return and I was just wondering, NatWest shares now trade roughly at one times book value. I was just wondering whether the changes and the...

Alison Rose: Wonderfully undervalued, aren't we? Very wonderfully undervalued.

Martin Leitgeb: ... I just wonder whether that changes anything in terms of how you think about types of capital returns, buyback was obviously an important feature and also in that regard, your ordinary dividend payout ratio, 40% in light of the high return, I think at the moment with the 19.8. I was just wondering, which brings a little bit towards the lower end of the European banking sector. How do you think about capital return?

Alison Rose: Yeah, capital returns. I think I've been very clear and very consistent. Returning capital to our shareholders is a core part of our strategy. We've developed a capital generative business and we've given 12.2 billion back to shareholders. There are multiple tools that I'll use to return capital to shareholders. Ordinary dividends with a 40% payout ratio. We're very comfortable with that. I think no plans to change that, but we'll also use specials if we think that's appropriate. Directed buyback, we continue to use that.

We recently completed directed buyback of 1.3 billion, which brings the government shareholding to below 40%. We think that's a good use of capital and obviously buybacks, our 800 million buyback that we announced is almost complete. So I think there are multiple tools that we use and I've used all of those tools

to deploy capital back. With the DBB that we've just done, for the first time, we're within our 13 to 14% CET1 ratio range at 13.7%.

Our business continues to accrue capital. Our preference is to deploy that to shareholders. We do have excess capital. I've talked before about, and I get asked a lot about M&A opportunities – they would have to have compelling strategic value. You've seen, we've done a number of things which really work for us in terms of adding to capability and range and growth trajectory for the business. So I think within that mix, 13 to 14% is the right CET1 ratio. Regenerating capital, our preference is to pay a regular return to shareholders and I think within all of that I've got enough tools to continue to be able to do that.

Martin Leitgeb:

Great. I have one more question before opening up to Q&A from the audience. I was just wondering in terms of broader strategy and transformation, it feels the transformation journey is coming to an end with the disposal of on exit of Ulster Bank. I'm just wondering, what's next for NatWest in terms of if you look at the setup, are there any areas where you feel underrepresented or are there any areas on the other hand where you feel overrepresented?

Alison Rose:

Yeah, I mean, look, I think we've made good strategic progress. I think the big elements of transformation of reshaping the corridor of the bank with the exit of Ulster and the reshaping of NatWest markets are coming to conclusion. The core transformation within the bank where we're continuing to invest in data and technology and innovation and partnership are really ongoing elements of our investment really continuing to drive both productivity and value and growth. And I think that's clearly an area, the next investment cycle, we're investing another three and a half billion in the business. We'll continue to invest in our data and technology and the three core areas that I talked about in February where we really think we can amplify our strategy and our growth through our personalisation strategy, which is really allowing us to acquire and deepen the relationships with our customers.

Embedded finance, which we see as a real area of opportunity and continuing growth and value and the sustainability transition where we have a really strong position and I've committed a hundred billion to fund and finance the transition to net-zero. Broadly 40 billion of that has been deployed and we see good dynamics and continuing growth, really good commercial dynamics from that.

Just to give you a sense, in some of the research that we did last year, we think there's 175 billion revenue opportunity, 260,000

new jobs and 30,000 new businesses that could be created within SMEs in the UK as being part of that transition and that's something we're working really hard to deliver. So those three areas we think are real areas of investment and growth. Obviously continuing to invest in data and AI. I think AI offers a really exciting opportunity to continue amplifying efficiency of productivity.

I talk about being a relationship bank for a digital world, that is really empowering and deepening those relationships. So yeah, big heavy lifting on the troublesome aspects of our transformation, which were not increasing value. Continuing momentum on our core transformation, which is growth and building in the capability. We have capacity to grow. We're still underweight in unsecured. We can grow. We've just moved into whole of market with good risk discipline. Our wealth business is making very good returns and starting to grow very successfully in terms of our affluent delivery, but we have more capacity to grow in that area, and our commercial and institutional business, deepening relationships and that business ecosystem and value accretion is still there. So, a lot of transformation but value transformation that we're continuing to commit to.

Martin Leitgeb:

Great. Let's open up for questions from the audience.

Well, it seems like we covered most of the things. In that case, Alison, thank you very much for joining us this year at our conference. We really appreciate you making time.

Alison Rose:

No problem. Thank you for having me.